

Message Text

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ORIGIN EB-02

INFO OCT-01 EUR-01 ISO-00 /004 R

DRAFTED BY: EB/OT/STA: JPCRAWFORD

APPROVED BY: EB/OT/STA: WCLARK

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R 160033Z NOV 74

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

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FOLLOWING REPEAT STATE 249282 ACTION EC BRUSSELS INFO LONDON

PARIS BONN ROME BRUSSELS THE HAGUE DUBLIN

LUXEMBOURG COPENHAGEN GENEVA OECD PARIS 12 NOV 74

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E.O. 11652: N/A

TAGS: ETRD, US, EEC

SUBJECT:TRANSSHIPMENT OF EC CHEESES THROUGH CANADA

1. THE INFORMATION PROVIDED BELOW IS IN RESPONSE TO THE REQUEST BY EC COMMISSION OFFICIALS FOR ADDITIONAL DETAILS ON THIS PROBLEM, AND AS FOLLOW UP TO RECENT DISCUSSIONS BETWEEN AMBASSADOR MALMGREN, MISSION OFFICERS AND EC COMMISSION REPS.

2. CUSTOMS IS NOW CONDUCTING AN EXTENSIVE INQUIRY TO DETERMINE THE EXTENT OF SHIPMENTS THROUGH CANADA OF EC ORIGIN CHEESES. HOWEVER, INFORMATION ALREADY ON HAND SHOWS SUBSTANTIAL TRANSSHIPMENT AND PROBLEM OF SUFFICIENT MAGNITUDE TO WARRANT IMMEDIATE ACTION.

3. FOLLOWING SUSPENSION OF EC EXPORT PAYMENTS ON CHEESES DESTINED FOR U.S., IN JULY EXPORTS OF ITALIAN PECORINO

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CHEESE SLOWED FOR A NUMBER OF WEEKS. BEGINNING IN AUGUST,

HOWEVER, A HIGH VOLUME OF SUCH CHEESE BEGAN TO ENTER THE U.S. MAINLY THROUGH PORT OF NEW YORK BUT ALSO THROUGH BUFFALO AND OTHER BORDER PORTS.

4. IN AUGUST AND SEPTEMBER, SO FAR AS WE NOW ARE AWARE, TOTAL OF APPROXIMATELY 1 MILLION POUNDS OF PECORINO OF ITALIAN ORIGIN ENTERED U.S. FROM CANADA. VALUE OF THESE

ENTRIES WAS APPROXIMATELY 1.2 MILLION DOLLARS. THREE-FOURTHS OF THESE IMPORTS WERE THROUGH PORT OF NEW YORK. THIS VOLUME APPEARS TO BE HIGH PERCENTAGE OF TOTAL IMPORTS OF PECORINO WHICH, IN THE PAST, HAS AVERAGED A LITTLE LESS THAN ONE MILLION POUNDS A MONTH FROM ALL SOURCES. FURTHERMORE, TRANSSHIPMENTS APPEAR TO BE INCREASING. LATEST SHIPMENTS CUSTOMS IS AWARE OF OCCURRED ON NOVEMBER 11 AND 12, WITH FIVE ENTRIES TOTTALLING ABOUT 200,000 POUNDS THROUGH NEW YORK.

5. SINCE CHEESES ARE ACTUALLY ENTERING CANADA, U.S. IMPORT DOCUMENTS DO NOT CARRY NAMES OF ORIGINAL EXPORTERS. HOWEVER, TWO CANADIAN FIRMS THUS FAR IDENTIFIED AS BEING MIDDLE MEN IN THIS TRADE ARE NATIONAL CHEESE COMPANY, CONCORD, ONTARIO, AND PRIMO IMPORTER OF WESTON, CANADA. (PLEASE TREAT AS BUSINESS CONFIDENTIAL.)

6. SKEPTICISM EXPRESSED BY HIJZEN AS TO PROFITABILITY OF SUCH TRADE APPEARS NOT BE BORNE OUT BY FACTS. CURRENT EC RESTITUTION PAYMENTS FOR PECORINO EXPORTED TO CANADA IS 42.13 CENTS PER POUND. ACCORDING TO CANADIAN EMBASSY, WASHINGTON, CANADIAN DUTY ON THIS CHEESE IS 3.5 CENTS PER POUND, AND TRADE OF THIS NATURE WOULD BE ELIGIBLE FOR DRAWBACK ON 99 PERCENT OF CANADIAN DUTY PAID ON RE-EXPORT. (IT APPEARS THIS TRADE WOULD BE PROFITABLE EVEN WITHOUT ANY DRAWBACK.)

7. CUSTOMS REPORT INDICATES NUMEROUS INQUIRIES FROM IMPORTERS ON LEGALITY OF THIS TRADE AND STRONG POSSIBILITY USE OF OTHER COUNTRIES FOR TRANSSHIPMENT PURPOSES AS WELL AS EXTENSION OF TRADE TO OTHER KINDS OF CHEESES IF EC SUSPENSION OF PAYMENTS FOR U.S. MARKET CONTINUES.
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8. IT THEREFORE APPEARS IMPERATIVE THAT THIS "LEAKAGE" OF ALL SUBSIDIZED EC CHEESE EXPORTS, FROM WHATEVER THIRD COUNTRY SOURCE, BE CUT OFF IMMEDIATELY. TREASURY DEPUTY ASSISTANT SECRETARY SUCHMAN CONVERSATION WITH LENG OF EC WASHINGTON OFFICE ON NOVEMBER 11 INDICATES LENG HAS NO HARD INFORMATION THAT THESE SHIPMENTS HAVE CEASED, AS HAD BEEN REPORTED BY HANNAY, AND RECENT ENTRY NOTED IN PARA. 4

WOULD INDICATE CONTRARY. WE APPRECIATE COMMISSION'S PAST EFFORTS TO RESOLVE THE COUNTERVAILING DUTY PROBLEM WITHOUT A CONFRONTATION, AND THEIR RECEPTIVITY THUS FAR ON THIS THIRD-COUNTRY ISSUE. HOWEVER, PRACTICAL SOLUTION TO PROBLEM WOULD BE U.S. COUNTERVAILING DUTY ACTION AGAINST EC ORIGIN CHEESES ENTERING THE U.S. FROM NON-EC COUNTRIES. TREASURY WILL FEEL COMPELLED TO TAKE SUCH ACTION UNLESS COMMISSION CAN COME UP WITH OTHER EFFECTIVE SOLUTION, WHICH CAN BE PUT IN PLACE RAPIDLY.

9. WE WOULD HOPE TO BE ABLE TO HOLD OFF ANY ACTION OF THIS NATURE UNTIL THE END OF THE WEEK, ASSUMING NO ADVERSE DEVELOPMENTS IN DISTRICT COURT CASE OR CONGRESSIONAL CONSIDERATION OF TRADE BILL. IT IS THEREFORE IMPERATIVE THAT COMMISSION RESPOND IMMEDIATELY, INDICATING WHETHER OTHER MEANS ARE AVAILABLE TO THEM TO CONTROL THESE, AND POSSIBLE FUTURE, SHIPMENTS THROUGH THIRD COUNTRIES. KISSINGERUNQTE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 16 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE249282
Document Source: CORE
Document Unique ID: 00
Drafter: EB/OT/STA: JPCRAWFORD
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: SECSTATE WASHDC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741136/aaaabeji.tel
Line Count: 132
Locator: TEXT ON-LINE
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2002 by izenbei0>; APPROVED <13-Aug-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TRANSSHIPMENT OF EC CHEESES THROUGH CANADA
TAGS: ETRD, US, EEC
To: OTTAWA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005